

TERMS AND CONDITIONS OF SPECIAL REPO FACILITY: 3 OCTOBER 2008

The UK Debt Management Office (DMO) has today announced the implementation of a Special Repo Facility, under the provisions of its Operational Notice. The Facility is being introduced to assist the orderly functioning of the gilt market in the light of conditions in the wider global financial markets and will be available from Monday 6 October 2008 until further notice. This document provides details of the terms and conditions under which this Facility will operate.

Eligible Gilts

The Facility will be available in all non-rump, conventional gilts with a residual maturity of less than 5-years (ie. 8% 2013 and shorter). Index-linked gilts and STRIPS are not included.

Eligible counterparties

As stated in the Operational Notice, the Facility will be open to firms recognised as Gilt-Edged Market Makers (GEMMs) that have signed the relevant legal documentation with the DMO.

Maturity of repo

Repos under this Facility will be for maturities of one-week at a time. The Facility may be rolled from week to week by counterparties, subject to the conditions listed below.

Price

Repo trades conducted under this Facility will be executed at a rate of 150 bps (1.5%) below that of the prevalent Bank of England Base Rate (eg at 3.50% where the Base Rate is at 5.00%), and the operation will normally also involve a one-week, back-to-back, cash neutral reverse repo GC trade executed at Base Rate, where the counterparty will post other acceptable conventional gilts as collateral.

Haircut and Margining

Repo trades conducted under this Facility will, at the DMO's discretion, be subject to the application of a 'haircut' which would be notified to the GEMM at the point of trade.

Margining will be conducted under the terms of existing Special Repo legal agreements between the DMO and GEMM counterparties.

Size limitations

The minimum amount of any request to create bonds under this Facility will be £5 million nominal. Normally there will be no maximum on the amount of an individual request, although the total call on the Facility in one or in a series of stocks by an individual GEMM may be limited at the DMO's discretion. Subject to bilateral

agreement, larger individual trades may be booked in smaller shapes to facilitate delivery on return as there will be no scope to accept partial deliveries.

Timings

Requests to create gilts under this Facility must be made to DMO cash or gilt dealers by 11:30am on the day of creation and settlement.

Announcements to the market

the DMO will announce on its wire services pages and website the details (size and identity) of gilts created under this Facility, as soon as practicable after 11:30am on the day of creation. The counterparty(ies) involved will remain anonymous, although the DMO reserves the right to share such information with other official regulatory bodies, where appropriate.

Similarly, cancellations of gilts previously created under this Facility, and/or any rolls, will be announced as soon as practicable on the DMO wire services pages and website.

Returns

Gilts created and lent under this Facility must be returned to the DMO by 11:30am on the due date. If any counterparty is unable or unlikely to meet this deadline, it may either (a) roll some or all of its original trade for a further week at the Special Repo rate (currently Base Rate less 150 basis points), or (b) request the creation of gilts on an overnight basis under the terms of the existing standing repo facility (ie. at Base Rate less 300 basis points).

Fails

Any counterparty failing to return gilts lent under the Facility for whatever reason, will automatically be deemed to have triggered the standing repo facility in the relevant size and is likely to be expected to execute a reverse repo GC trade at the Bank Rate. Where timing restrictions render this impossible (eg. after the GC close in CREST) the DMO may request a DBV substitute trade, which will be subject to a 'haircut', on top of the normal 300bps penalty.

Inclusion in gilt indices

None of the gilts created under this Facility shall be eligible for inclusion, temporary or otherwise, in the calculation of FTSE or iBoxx gilt indices.

UK Debt Management Office
3 October 2008